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EDITED TRANSCRIPT

GE - General Electric Co Outlook Investor Meeting

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PRESENTATION

Jeff Immelt *- General Electric Company - Chairman and CEO*

All right, let's get started. All the forward-looking stuff; we will get right to business.

A year ago we stood here and we talked about an outline for the year that was going to be an active year and I think we have done what we set out to do: aggressive portfolio reshaping underway, good industrial execution including a ton of restructuring, so over the last two years we've done more than $4 billion of restructuring to improve the cost base of the Company; simpler structure; smaller GE Capital; and a focus on returns.

So I think as I go through this pivot in 2015 and 2016 what you are going to see is the world's best infrastructure company where every business in the Company leverages the core competency and very tightly the core capability of the Company. $40 billion returned to investors over the next few years in dividends in the Synchrony split, so what we outlined last year is underway.

Substantial EPS tailwind with restructuring, Alstom, buyback, not having restructuring exceed gains, industrial execution, smaller GE Capital, continuing to make it smaller, and a culture of simplification and accountability. And I'll talk about all those things today.

The output of that is going to be good, solid double-digit industrial EPS growth for the next few years. An output of it is earnings, industrial earnings exceeding 75% of our total earnings, and expanding margins and returns. So I'm going to talk about all these things as we go through today.

Watchers of CNBC, you know there's a lot going on in the world so you know that's the mode we are in today. Some of them are better. I would say the US economy still feels like it's getting better. Air travel, rail travel quite strong, even today. US healthcare around the edges getting a little bit better.

Some things the same. Most of the growth markets are the same. Natural gas prices, power demand remains the same. And certain things clearly under stress: oil prices down, Russia tough, FX, things like that. So it's just slow growth with volatility.

It's what we've seen since the financial crisis. Things get magnified in the short term and that's kind of the world we live in, but we still think there's plenty of growth out there to be had as you pick through and go through the world.

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Now oil price decline. I'm going to talk a little bit more about the oil and gas business in a little while, but we have been through cycles before, so we prepare all our businesses to go through a cycle. Lorenzo and his team were working on cost outs.

Even before the oil prices went down, the oil and gas customers were really focused on improving the quality of the projects. We have been working on product standardization, things like that for a long time. That is all going to get accelerated.

We're going to be able to pick through customers and projects that we want. I think if you are a big oil company in a time like this, GE looks better as a supplier during a time like this, so we like our competitive position. And we're going to look for opportunities vis-a-vis share, people that we can hire, things like that.

And the rest of the Company looks fine. There's puts and takes, but the rest of the Company looks fine. And I always find sometimes we are in the middle of one of these big macro kind of distractions and things like that, it's good to think about micro a little bit. So I have been going to China for 25 years. China is okay.

The micro of China: if you're in the aviation business, the Healthcare business, the power business, China is fine. If you are in the commercial real estate business in China, not so good. We are not there in commercial real estate, so China is okay.

And the resource-rich places, if you are a low-cost producer like Saudi, you are still going forward. If you are a marginal producer like Iraq, Venezuela, it's going to be tough. It's going to be tough.

I always have to remind people the country that we are still as GE most hedged to is United States. If the United States does better because of low gas prices, that is great for us. If low gas prices are felt broadly in Europe and US and China, that's going to be good for GE.

Aviation & Transportation, the commercial spares rates, average daily order rate today is higher than any time I can ever remember. We will set record orders this year in locomotives. So when you think about the micro, it's just a little bit of a different perspective.

And then in the power market we are working on some of our biggest power deals that we have ever had that are -- some of which will be announced yet this year on power projects, so if people need electricity they are going to still invest in power projects. So the micro is still okay. There's going to be pockets -- clearly with oil prices down there is going to be pockets that get filled in, but I think looking at the micro sometimes is helpful as you go through things like this.

Our framework on the year was still on track for the Industrial, double-digit segment growth for the year. In margin expansion -- organic growth and margin expansion, my sense, we said revenues in the quarter would be above the high end of the range. That still looks like what we are tracking to. And revenue for the year will be close to the high end of the range, organic growth. That is still what we are tracking to in 2014.

Capital is tracking more to a $6.9 billion number than a $6.7 billion number. We're going to do more restructuring and charges in the quarter, a couple pennies more. Again, we have done a ton of restructuring this year, guys, without gains. So going forward we're going to go back to gains offsetting restructuring, but this year, to get ready for the Synchrony spin, get our industrial costs down, we have been very aggressive with restructuring this year.

CFOA is tracking towards the middle of that range on CFOA and revenues I already went through in terms of how we are tracking for organic growth for the year. So that is the framework as we look at it this year.

Now I'm going to switch to a strategic update and then at the end I will go through segment by segment and give you how we are looking at 2015.

Look, we are tracking to have the world's best infrastructure company. By 2016 more than 75% of our earnings are going to be an output of that, and a smaller GE Capital. Every business in the industrial sector can leverage all of our capabilities, what we call the GE Store: technology, services, global footprint, simple structure. Every business is going to be able to fully leverage that and take advantage of it. A good, solid industrial EPS growth through the period and a smaller financial services and one that is based really on competitive advantage and returns when we think about the total portfolio.

We have done a lot of work over the last 10 years on the portfolio. I would say a couple things industrially. We are just more diversified industrially within each business and we have exited all the industrial businesses that didn't fit the infrastructure model, so we have exited appliances, plastics, silicones, business like that.

When I stood here let's say in 2002, more than 50% of our earnings came from one product and one market. F turbines in the United States was 50% of the Company's industrial earnings. So we have very actively within healthcare, within power, within aviation broadened our capability and so I like standing here today with a set of infrastructure businesses that all utilize our core advantage and have more capability in their industries, more profit pools inside their industries. And that's what we have here today.

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Then on the financial service side, smaller -- look, we exited insurance in time. I think we got too big in consumer finance and we had to go backwards on that, but really focused on a smaller financial service business. Doing things within our control, and I think Synchrony is going to turn out to be a good trade for investors as we go through this.

So focus on staying close to domain, doing deals of the right size, really generating strong returns in the synergies. These are the things as I look forward in the Company going forward. And I think where we stand here today just less portfolio activity and very tight focus on returns, very tight focus on returns as we stand here today thinking about the portfolio and where we stand.

We did three big deals in 2014, Alstom, which I'll talk a little bit more about. In a sector we know very well, complementary, financially attractive, generating synergies, high double-digit returns, high teens returns.

Synchrony, that we've done the first part of Synchrony, we have asked you to model Synchrony as if we will have it for the full year in 2015 but we are going to look to execute on the remainder of Synchrony as soon as we can in the year. But that is just for modeling purposes the way I would think about it.

Look, based on current pricing and things like that, this is going to be attractive, maybe as much as 700 million shares plus or minus that we are going to be able to exchange, and a big gain in Synchrony. Then appliances we think we did a fair trade. Another gain in the appliance business, attractive buyer. So these are three big deals that we did this year that we think executed on the strategy in an important way.

So with Synchrony, what does Capital look like? I would say by the end of 2015, ex-Synchrony, we will be below $300 billion of ENI. We will continue to exit Australia, Central and European banks, things like that.

We're focused on the verticals for places where we have a competitive advantage. We're going to be building regulatory capability and look to enter the CCAR process in 2017 and focus on improving returns.

Then -- I always hate to give single-point guidance, but I find with GE Capital it's helpful for investors just to know how we are thinking about it. I would think about $0.60 a share in 2015 and with Synchrony out and fewer gains and things like that about $0.40 a share in 2016.

We are still think about ways, in an investor-friendly way to continue to reduce the size of GE Capital, driving a consistent dividend and improving returns in terms of the business and where it is.

In terms of Alstom, we are in the midst of the integration process. We've got more than 300 people working on this full-time. There's things we know and can talk about. There's things -- they are still a public company so I'm limited in terms of how much I can really say, but the synergy pipeline is robust.

They have got good people. They've got good factories. They've got good people. It's products and technologies we know. It dramatically expands the global operations of the Company in an important way.

What is -- as expected, the technology is kind of what we knew it was, where it fits. And some places it is much better than what we have, particularly in areas of the grid, but very complementary. The people we have known -- when we did the EGT acquisition in the late 1990s these were all Alstom folks so we know them quite well.

The government processes and compliance monitors are on track within our deal case so that's important. We have hired some ex-Bechtel people to go through the EPC process with us to learn a lot about the projects, so we are going through that. So far it looks a pretty good capability.

And the first half cash was lower than they expected due to tough markets, but it's going to improve in the second half and we ought to already see a pathway on that. So that is kind of the update. We are -- for the planning purposes we are counting on a mid-2015 close, let's say midyear, so that seems to be a pretty decent assumption vis-a-vis where we are today.

This goes back to last April when we laid out the synergy plan. We've talked about $400 million of synergies and supply chain and services and that looks pretty good. There is a 10 point margin delta between our service business and their service business, so that looks like a pretty good place to hunt.

1,000 combined sites, a third of which are in the same city, that looks like a decent place to hunt. And like I said, the manufacturing processes are quite good. We are quite impressed with their manufacturing team and we like what they are doing.

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There's a ton of juice in sourcing. There's like $1 billion, more than $1 billion that either one of us buy that the other company makes. So if you slap on a 20% margin on that you wake up in the morning with $200 million just by replacing suppliers and that looks pretty good. $12 billion combined buy.

Technology very complementary, complementary skills. If you look at our SG&A benchmarks versus theirs, there appears to be a decent amount of synergy so the synergies look pretty good. And then we didn't really count on any growth synergies, but when you look at the global footprint, when you look at the aspects of where they are and some of the things we think we can do with the installed base, there seems to be some reason to think that there might be some growth synergies.

So we've kind of laid out for you, this is going to be $0.01 accretive in 2015 all-in. In 2016 it is $0.06 to $0.09 accretive and then it ought to grow from there, so high teens return, improved strategic position. We like the way Alstom is lining out so far.

A ton of potential, just a ton of potential but it's going to take our best effort. We're going to have to dedicate a lot of people, a lot of management time to it to be successful in this field.

And then you look at just what a combined entity looks like. From an infrastructure standpoint, this is a fine company. This is a fine set of businesses. We ought to have a couple years of -- with the Alstom synergies and the buyback and just organic, reasonable organic growth and gains in restructuring offsetting. You're going to get a couple strong years, as far as we can see, in the environment we see today of good earnings growth.

You've got a strong set of number one franchises that are in this business, all of which can leverage the GE core. It makes the Company's core abilities even stronger, so it makes us a better technology company. It strengthens our hand in growth markets. It gives us probably more than a $200 billion service backlog.

We think there is opportunity for incremental returns here. Just getting the Alstom synergies is quite strong, but it also is going to play into the work we are doing on ROIC and gross margins and more scale on a simpler foundation. We are going to be in the middle of global infrastructure, energy transitions, growth markets, efficiency, environmental investing, a whole series of things. So you are going to have a great-looking industrial company going forward, really built on our GE capability.

And the GE capability looks something like this. We talked about this a lot of different ways a lot of different times, but in some way shape or form we've talked about the same four initiatives for the last decade or so. This is a great technology company that spreads ideas throughout the Company with a global research center, a legitimate global research center that spreads ideas.

This is a fantastic global company that has got a global growth organization led by a vice chairman who sits in Hong Kong, where we have a very strong franchise in all these countries around the world. It is fantastic with services and customers with a software COE, a service council, some of the best service operations in the world, and it's this lean culture heading towards 12% SG&A as a percentage of revenue with cultural development, training and development, and things like that. And every one of our industrial businesses now can trade fully on this capability.

At the same time, everyone in the businesses adds to this capability. So in the case of aircraft engines, aircraft engines is a first mover on engineering productivity and material science. Aviation is the business that delivered CMCs which Power business now uses and additive manufacturing that the Healthcare business now uses.

Healthcare is the anchor tenant in every growth market around the world. We had 2,000 employees in China Healthcare in the year 1999. All of the original staffing for the Power business, the Aviation business came from Healthcare. Most of the diagnostics technology we use across the service installed base comes from Healthcare.

Transportation business brings combustion science, engine technology, localization; again, a first mover in a lot of the countries around the world. The power business really brings the services installed base and the services capability. The power business has 17 facilities that every business -- Transportation, Oil & Gas -- uses.

Oil & Gas has been the first mover in Africa and lots of other hard places to get to. It brings a ton in service technology, great applications, and controls.

Energy management, all of the power conversion, electrification controls technology comes from Energy Management back into the GE Store. So I think as you think about this, what makes GE work, it's this very strong core competency and a very great capability built around these core aspects in terms of who we are and what we do. And that is the GE Store.

Now we are going to make the GE Store better. So a lot about what we've been exiting on in the past and a lot about what we're going to be doing in the future is built really on this page and I'm going to amplify it in the future in the next couple pages.

Technology today is just about delivering new features. You also have to deliver it at a fundamentally lower cost point. We are doing technologies and manufacturing at the same time. When we invest in R&D, we are investing as much in manufacturing as we have any time in our history. Absolutely key, absolutely key.

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We are going to be a huge player in globalization and in growth markets. We're going to have the world's biggest franchise with a ton of localization capability.

Three, we really do believe that every industrial company, everybody in your universe is going to have to be basic in analytics and information technology. We fundamentally believe that and we are putting our money where our mouth is. We're going to continue to do that and we think we are going to win doing that.

Four, based on all of those things, I think we have underwritten the healthiest service franchise in the world. Your highest margin as an investor, your most valuable asset is in the installed base. We've made that even more valuable and I will show you the ways we're going to do that in the future.

Five, we are going to take simplification that we talked about on our structural costs and we're in the midst of driving that massively into gross margins and ROIC. So we've got a lot of juice there and we're going to continue to use that to be able to drive our margins.

Six, just this strong culture of simplification and accountability are critical in terms of how we look at the future, driving FastWorks and the other parts of the Company. So this is really executing our strategy.

We've got great products. Our products differentially are the best that I can remember. On a differential basis, we've got great position.

H Turbine, highest efficient, largest gas turbine in the world. It is a bigger part of the segment. We've got 37 technical wins. We are going to really do a great job with the H Turbine.

Tier 4 locomotive, when you are the only one approved you get a lot of orders and that is how I started my career with selling Lexan. We were the only polycarbonate company in the world. We thought we were geniuses as salespeople. When you have the only one, it's a good thing, right?

Our LEAP engine, our win rate is huge right now on the LEAP. We're doing quite well in terms of how we are positioned. This is going to be a huge launch on the LEAP engine.

PET MR, I was at the RSNA. We had the best alignment of new products I can remember in a long time. We were behind Siemens on the PET MR. It's much better. Our MR product line, CT product line, ultrasound, we just look really good in the healthcare sector right now.

Lots of Oil & Gas innovation. 20k BOP is going to get launched. It is highly efficient and highly effective. And Power Conversion is a very important horizontal capability in terms of the Company and is going to see some good growth for GE going forward. So we really have a great array of products right at the right time ready to launch.

But we are also making them in a different way. You know, when we increased our R&D as a percentage of revenue from 4% to 5%, that extra piece, a lot of it went into manufacturing technology and that is going to pay off for our investors as we do that in a number of important ways.

Materials and additives. You've heard us talk about or you've heard Dave Joyce talk about CMCs, but also this strong manufacturing capability that we bring across the product line.

Design and test, this is unsexy as hell, but we have a test stand in Greenville that can do full-load gas turbine testing. It is awesome.

You can now take the product -- we can iterate the product. We can bring customers to see the product. People will ensure the product. Insurance companies will ensure the product. Testing is a massive advantage and something that we have a leadership position in.

I would say the choice to do vertical integration -- with the way we design or products now we basically own all the designs. We can choose how much we want to chew off on vertical integration, but we are going to get more margin. We are either going to get it through lower sourcing pricing or by doing more ourselves.

And just digitization; we are taking all the things we talked about in mines and machines and we are applying that back into our own factories. So if you look at the LEAP, the LEAP has got a lower starting point and a faster learning curve than that GEnx. It has been designed more efficiently than the GEnx and it's going to have a lower fundamental cost.

As you guys know, as David will tell you, with the LEAP one or two points either way is worth hundreds of millions of dollars over the lifetime of the product. And the H Turbine is going to start with a lower initial cost and with a faster learning curve, more productivity than any of the products we have ever introduced. So we really have aligned cost and technology very well in this process.

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We are going to be -- GE plus Alstom there's $60 billion in growth markets. We are just profoundly well-positioned in just about every country that counts around the world. It's going to give us scale. It's going to give us competitive advantage. It's going to improve our scope.

But when you look at a place like China, we will have probably close to 30 factories, the real critical mass across the entire company. India, that's a place where Alstom was superior to GE; has a very strong leadership team, more factories, and better positioned in India.

Middle East, North Africa, and Turkey I talk about that. Alstom really adds to the capability and the mass of the Company going forward, so we now as a Company are not only bigger than our competition but can really utilize and play any game strategically on a global basis. Big competitive advantage.

We also have the software that goes with it. I think in the world we live in today you just can't miss anything, so you're going to have to be present and get the incremental business that exists around the world. And you've got to do that in a cost effective and efficient way at the same time.

So on localization we are around the big deals as they take place. China is going to be a very active market next year in the aviation sector. Lots of campaigns that we are going to have to be focused on, most of them narrowbody campaigns.

Like I said, emergency power, you're going to see deals yet this year in the emergency power space. People that need electricity. You've got to be well positioned. No two of these deals are the same, but when you look at a deal like Algeria, these are very important for the Company strategically.

We will do about 1,000 locomotives around the world between 2015 and 2018. We are well positioned in a lot of the places globally there.

We can compete anyplace in the world from a value healthcare standpoint, so we can go against Mindray or others at high margins in the markets around the world. And even with oil where it is, there's going to be some big projects in Africa next year in subsea and oil and gas that GE is going to participate in and look at and work hard on. So localization helps drive growth, but by being local in these markets we also have more presence that can improve our productivity and cost at the same time.

One of the things John Rice has done as we've gone globally is really invested in these multimodality sites. So as we invest globally no site now is one GE business, it is multiple GE businesses. I will show you here just Haiphong and Pune in India, but that's about $500 million of output, 20% savings. And we are doing this more and more on a global basis.

Engineering centers, one of the metrics that we look is operating cost per hour. So when you look at Mexico and Poland from an engineering standpoint, they have an operating cost per hour 20% or 30% below the rest of the world. And shared services we're doing in five centers now on a global basis. So globalization is giving us both a cost base and revenue base that again I think makes us very competitive in the world we live in today.

This comes from Minds and Machines. We basically discussed the investments we are making in analytics, about $300 million to $400 million a year, and this is going to add to a higher service growth rate. More dollars per installed base and higher service margins; better product feedback. It also connects us more closely to our customers.

And this is still ongoing. This is still -- we are still making a ton of progress along these lines and we also talked about our own investment in information technology that helps us get our 1% and helps us be more efficient with our installed base and manufacturing. And so these are things that we are going to talk about at every meeting, give you updates on, and let you know how we are doing and what our capability is.

One of the important horizontal capabilities that we are investing in around the Company is in controls. Controls is a critical horizontal capability for the industrial Internet. We now can take controls and backfit them into B and E Class turbines, the old installed base.

When you do that you open up their ability to accept the industrial Internet or accept software and analytics on top of that. We think this is going to give us a chance to drive better upgrades around the installed base.

Life optimizing controls we're doing around all the wind turbines. This allows us to improve their up time. This gives us ways to substantially grow the service franchise for our wind business by double digits, even in a sluggish or tougher market. So controls, new technology, new ways to think about the future.

In the case of locomotives, our rail customers are going to allow us to be their operating ERP. This shows a real, live example of a locomotive customer. We have eight different software offerings that we are selling to this customer. The potential for each one of the locomotive customers is about $100 million of incremental revenue each year, dramatically increasing the dollars per installed base.

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The ones that don't have numbers associated with them, we are doing today and the 1, 2, 3 are new offerings, new bids that we are driving. So this is real-time accelerating growth in our service business.

And then in the case of information technology we are aggressively driving ERP reduction, application reduction, more knowledge inside the Company. And I would just show you two businesses here, our water business and our life science business.

As we have been able to collapse the structure of these businesses that were largely built through acquisitions, we've grown their operating profits substantially over that time period. Both of these franchises have return on capital of 15% or more, and so we are able to use the simplification of the structure and the information technology to drive better margins, lower SG&A, better returns on all of these businesses going forward.

So better products, better global footprint, the intersection of physical and digital. And that investment of physical and digital leads us to really underwriting an incredibly important and valuable piece of turf for our investors, which is our installed base.

We see steady growth. We are going to have another good year in 2014 in services of organic growth, margins, and backlog. We expect another strong year in 2015. We are growing our dollars per installed base by 3%, which is very healthy. That's a good level for us.

Our margins are up substantially in services this year. Our incremental software sales are strong, our Predictivity orders will exceed $1.5 billion, and we are now looking back at this aged fleet where our penetration is lower, whether it's jet engines or locomotives or gas turbines, and licking our chops about where that can go in the future. Alstom adds 35% to our installed base and there's a 10 point service differential in terms of margins there, so we see some good opportunities with the acquisition.

GE brings a ton of technology. We bring a lot in terms of global footprint and Alstom actually has quite a good service business as well, particularly around multivendor service and aged fleet, so we think there's a ton of complementary synergies in terms of where we stand here.

Number four is this big focus on services, profit, long-term profit, huge backlog. Alstom is right in the sweet spot here, and this is a place where our performance is actually getting better each day and we like where we are.

I thought I would just take you through one business as an example, an important business, which is Power Gen Services, just to allow you to see whereas you used to have -- how big your installed base grew was the only determinant of whether you made more money than services year after year. You now have five or six engines that are growing simultaneously in terms of the power business.

So you've always got new products and our close rate, whether it is in aircraft engines or locomotives or healthcare, our close rate around new technology in CSA is always huge. So you always start close to 100% on the CSA close rate.

Then you add to that upgrades. You hear us talking about Advanced Gas Paths which will be about 80 and they will be even more next year. But on top of that we also do upgrades to a lot of our other old fleets in terms of where we go with a ton of margin dollars associated with that.

We will have $300 million of just software sales in the business. That's probably twice what it was in 2014 and we are going after the B and E Class of fleets, so we are going after the old aged fleet with new controls and analytics. We've got a great global footprint so our close rate globally is as high -- our close rate is as high in Australia, China, places like that than it is the United States. And we are generating $350 million, $400 billion of productivity every year.

So you march through there and we are just changing the game around our service businesses, and I could tell the same story in Aviation or Healthcare or other businesses so really critical. So products -- global, physical and digital -- that leads to better service and service outcome and then a real focus on just intensifying kind of wing-to-wing process improvement.

We have done a good job on SG&A, getting down to 12% on SG&A. I view that as the right place to start, because it's not only cost that we could take out but also made running the place easier. So that is key.

We have always worked on the other buckets, but we are just doing this with more focus and intensity, so setting real gross margin, contribution margin, less R&D. And as you do SG&A and as you do gross margins, 80% of -- more or less 80% of our ROIC, or our returns improvements, are driven by margin growth. Then we add to that a focus on better capital intensity, better capital usage down there, free cash flow conversion.

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So we are basically saying, look, we are on a pathway to get to 12% by 2016 in terms of SG&A. We started in 2013 at 27% segment gross margins. We want to get 50 basis points annually on gross margins. We have told you last year we wanted to get to 17% ROIC and we are on a path to do that. So the new metrics today, let's say, is around gross margins and improvement we want to see there.

To do that you got to focus on what we call the Xs. You got to focus on the critical projects, the critical areas that are going to really move the needle and make those a horizontal capability inside the Company, so for us there's really eight of them.

It's product costs, which goes without saying. When you're in a high tech infrastructure business, product costs that's just about everything we do. Operating cost per hour, so that is a blended average of how we engineer, where we make things, and we put everything on a common basis.

Value gap, which is really a comparison of how you sell versus how you buy, so critical in terms of to see if you are recovering inflation. Engineering efficiency in big businesses like Aviation; this is really key and there's ways that we can measure engineering output. Service productivity is something we share with you all the time.

Reliability in a business like Transportation -- any businesses that have big CSA portfolios, reliability is a critical determinant of how you ultimately drive margin into your installed base. P&E efficiency goes without saying and working capital turns is a common one.

So converge on metrics, horizontal process, Dan Heintzelman and Jeff Bornstein and the corporate audit staff focus on that. Compensation linked to metrics, linked to outcome metrics, and making sure that all their projects give us room for mix. Because that is the hardest thing to predict and I would say that is the place where we have whiffed in the past, and so we just have to set the bar higher that can accommodate different mix formulas inside the Company.

Then I show you in the end how does it work in a real-time example. Again to pick on David, but he's doing a good job. You all think that I think; I sure do. Aviation has 25% gross margins, 7% SG&A, 18% returns, 90% cash conversion. So if you look at businesses like Aviation, the things that stand out are gross margins, not SG&A, and he has been in a heavy CapEx launching all these engines. We just have to drive more efficiency in the CapEx cycle.

So in the Aviation business, 1 point of gross margins is 100 basis points in ROIC. 10% reduction in P&E is 50 basis points in ROIC. David's big programs are around product costs and learning curves, huge in that business. You've heard him talk about that in the past.

P&E efficiency, how can we get cheaper tooling or the same amount of the CapEx that we are installing in the business; engineering efficiency; and clearly services productivity is a big driver of gross margins as well. And then that is how his team is compensated and that feeds back to the results. So we've got kind of a virtuous cycle in terms of the new comp plan and how we think about operational simplification.

Now we have been working on these things for a long time. I think this is just a way for us to formalize it, be more transparent about it, but these are things that are important for the company. So we have a lot of work going on inside the company on product costs, when it comes to what product managers do or what engineering teams and manufacturing teams have to do. This is a turbomachinery example in our Oil & Gas business where we take 25% of this product cost out.

Strategic sourcing, look, for us, for Steve, and for David precision casting is the number one sourcing component. And if you are in the Aviation or the Power Generation business we've got to find ways to get the cost down, and so we've got real programs in terms of how to focus there.

Aviation learning curve, this is about both supply chain sourcing, how we make things. Value gap is about pricing. In the case of Aviation, getting more price per unit. Products like Tier 4, where we have significant performance advantages, being able to get the pricing right the first time.

Healthcare is really all about the original NPI. It's all about how do you get better costs out? No team in the Company does it better than our ultrasound team. And then we have a lot of service examples on productivity. Probably the most important thing we're doing right now is in CSAs and analytics, and you saw examples of that at mines and machines.

So we've got tremendous programmatic focus on gross margins and ROIC kind of embedded into how we think about ROIC. We've talked about getting to 17% by the end of 2016, by 2016. Gross margins, we've talked about 50 basis points improvement on an annual basis.

Our culture we talked about simplification for the last couple years. I think this is really resonating throughout the Company. And when I talk about we've done over the last couple of years here: our lean management, doing fewer things but doing better. Fewer layers, less structure, less process, fewer P&Ls, lower cost.

I stood up for a long time in terms of GE and asked people to do more with less. Not asking them to do less, but do it better, lean management.

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Everything on the clock, so we've done lean for 20 years in GE. We have added to that some process from Silicon Valley called the lean startup. We call it FastWorks. The H Turbine has been launched in 2.5 years. The precursor to the H took five years, so real cycle time coming out in a real way.

Commercial intensity, putting all the enabling functions so they have to focus on the market, getting everybody engaged with what are the public customer metrics that we look at inside the Company. And then the last element is really getting GE up to its digital entitlement. The fact is we can be leaner and faster if we just have the right IT tools as you think about the Company on a go-forward.

The phase one of that was a lower cost company, so getting down from 18% SG&A as a percentage of revenue down to 12%. We are well on our way. A faster, smarter company, this is FastWorks, this is gross margins.

And GE beliefs: customer determines our success, stay lean to go fast, learn, improve, empower, inspire our people, and deliver results in an uncertain world. Those are good words for all of you in this room because that's the world we live in. That's what we live in today.

So those are the things that are part of strategic execution inside the Company and then we kind of solidify that with compensation. So the team is really on a very directed, financially clear plan where each business has financial goals that are kind of like we've done our long-term incentive plan for years.

So these are four financial goals that really set the pool; the Company kind of goal set the pool. Then the business have to deliver on their four goals and then strategy is part of that in terms of deciding how much everybody gets paid. And for myself and the named executives, we now are all on some form of performance shares, so we are all kind of put our money totally aligned with investors.

And then again, going back to the Aviation example, 50% of IC is very linear financial, 50% is strategic. Do they get the LEAP out on time? Do they hit the right costs on the LEAP? Things like that.

And then that is filtered with the total company performance. So accountability, alignment, culture -- all kind of part of the process of where the Company is and the kinds of things we are doing we think particularly good in the times we are in today.

So what does that mean overall? I think in 2015, like I said, in 2014 we will see organic growth at the high end of the range, the 4% to 7% range. 2015 we're talking about 2% to 5%. I will go through Oil & Gas in a second, but we are really planning the Company for a sluggish Oil & Gas sector in 2015.

Started at 15.7% margin in 2013, growth in 2014, growth in 2015, growth in 2016. We have good momentum around margins and on track to hit our 17% ROIC goal by 2016.

So organic growth, we've got a lot of good programs underway. Margins really underwriting any potential challenges in mix with better gross margin performance and ROIC a real focus on margin enhancement and capital efficiency going forward on returns. In the end, our initiatives are all tied to better financial performance for the Company and for the Company going forward.

That is kind of the strategic overview of the Company. Now kind of talking about 2015, so we are going to change the way we communicate about the Company public. We know how endearing the pluses and pluses have become to everybody, but we thought, at least at the top of the house, we would make it clearer and help people navigate through.

So we are going to basically do four top-line metrics. One is industrial EPS. And the industrial EPS is a function of segments, corporate, all the way down to an industrial EPS. Here we are saying industrial EPS is in the range of $1.10 to $1.20. Industrial EPS will be up double digits.

Segment organic growth of 2% to 5%. Margin expansion as part of that. Corporate will be somewhere between $2.3 billion and $2.5 billion. We are basically saying, because they are so meaningful, Alstom and appliances kind of close on July 1. Basically we are kind of modeling the year as if M&A all kind of happens more or less at the same time. I think that is probably as smart as we are and the best way to kind of build the models.

GE Capital we are talking about $0.60 in 2015. Smaller if we get a chance to make it smaller in an investor-friendly way, but we think this is a good base plan for people to think about.

This basically assumes Synchrony happens on January 1, 2016. Again, just for planning purposes, this is the right way to think about it. If we have a chance to do it sooner, that's what we will do.

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A number of free cash flow plus dispositions, so total cash generated, so this is CFOA minus P&E plus divestitures. So we're talking about CFOA of $14 million to $16 billion, P&E between $4 billion and $4.5 billion, and dispositions of $2 billion to $4 billion of cash received. In other words, a lot of this has already been announced. It's just getting cash in the door for that.

And then cash return to investors, a wide range here, $10 billion all the way to $30 billion. And that just includes dividend and the impact of buyback and synchrony as you go through that. So these are the way to think about the Company, the guideposts of the Company, and now I am going to take you kind of segment by segment in terms of how to think about where we are.

We are going to leave the pluses just for the segments, but -- and I'm going to go through each segment individually, so I'm just going to -- this is really a summary page. But I just thought I would spend a little bit of time on how to think about the high end and the low end of the range.

I think the high end says the US is better, that healthcare in the US continues to improve. Third quarter was a little bit better, fourth quarter we think is going to be okay. The business has taken a ton of costs out, so any incremental volume is pretty lucrative from a financial standpoint.

Aviation transportation, the history has been that as our customers earn more money, we earn more money. If revenue passenger miles and spares and things like that stay where they are today, there's room for upside in some of these businesses.

Decent distributive power in Wind business. These are very policy-driven businesses. If you think about Distributed Power in countries that need electricity, when you think about wind, these tend to be more on the policy side. But see how that falls.

Better cost execution. Our sourcing should be better as we go into 2015, given the price of oil. That is a positive benefit of the price of oil. And in Alstom upside. Again, we have a model, but these deals all happen in a different way once you close them.

Then the low end of the range, it says what if instead of 3% plus global GDP growth that the IMF and everybody else forecasts, what if it's actually lower than that because of other things that are happening in the world. We don't see that today, but we can accommodate some of that. We can accommodate Oil & Gas being worse and still be in the range, so we can accommodate more pressure there and still be in that earnings range.

We have a union contract here in 2015, so that always adds a little bit of variability. I always think about that in the context of what could happen. Public policy, I have no idea if we are going to get tax reform or any of that stuff, so we don't know where that goes. And what if the dollar goes below $1.20? We've got to stress the plan to see what happens if really currency breaks out.

But the point I make for you is we have given you a pretty -- we have given you a range that accommodate things getting worse and still be within that range. And that is probably the most important thing to think about at a moment like this. If things are better, that's great for everybody and that is how to think about it.

So Power & Water, what I'm going to show -- the businesses that have M&A I'm going to show them with and without M&A. So if Alstom closes July 1, Steve and his team will have double-digit revenue and double-digit profit growth. If it doesn't close, just the core business has single-digit revenue and single-digit profit growth in Power & Water.

We are not really assuming market growth per se. This is really a function of having really great products, so we have really good products versus our competition. We have got very good service execution on track. We have taken $1 billion of structural costs out of this business, so we've got a lean cost structure.

And the team has been executing reasonably well and what we try to do is hedge in here. You just get bluebirds one way or the other, right?

So in the distributed power side this is really -- there's probably five or 10 deals we are working on at any given time that are just about emergency power and we try not to lean too heavily into those as being things to count on. Then you get six months of Alstom and Steve has responsibility for the Power side. So that is kind of the base plan, so that is Power & Water.

Aviation, we basically talk about revenue up single digits and profit growth ahead of that slightly, and talk about a business that has really done extremely well over the last couple of years. Extremely well positioned in the marketplace, winning in the OEM side, a good service franchise, a very strong service franchise.

The negative mix is kind of in the run rate, so you think about launching these engines, the first year stinks but you already have that. So the GEnx kind of -- the GEnx cost comes down. Then you introduce LEAP a couple years from now, but basically the badness you are going to feel from a product mix is already there.

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And investing to launch these new products, so still investing to launch new products. And military is going to continue to be tough. We don't see any good news vis-a-vis the military business, so that is going to be a drag on Aviation as it goes forward.

Oil & Gas. Oil & Gas, again it is a flurry that's going around this industry right now clearly. What I thought I would do is just decompose the revenue and the cost side. We basically have five segments, so the top line is we are counting on revenue being down slightly and we are going to try to hold margins. That is kind of the base plan. So revenue is down, but we are taking a ton of cost actions. So that is kind of we think a reasonable plan.

So revenue five segments, I start with drilling and surface. That's the most volatile piece of the mix. That's the first one that gets hit. We are counting on that being down more than 10% in revenue, so we have taken a fairly stark view on the drilling and surface business.

Then you go to subsea, subsea is primarily oil, tough projects. Those projects are likely going to continue. In other words, people don't stop projects that are like this, so this is more than 70% backlog. We think orders are going to get hit in this business, but we see revenue playing through in 2015 in all likelihood.

And then turbomachinery, really the LNG mix as a percentage of the global fuel that is going to continue to grow and as LNG fuel as a percentage of mix continues to grow, the completion of LNG projects goes forward. And so we see decent backlog in the turbomachinery business, we see decent orders in the turbomachinery business, and we have kind of modeled that to be okay next year.

In the measurement and controls business, you have other people in your space, like Honeywell and Emerson, that are in that business. Some of that is MRO. A lot of it goes into industries other than just oil and gas, so we kind of view that as being okay next year. Then the downstream is actually going to be better, so downstream projects are actually favored in the world we are in today.

So we kind of see 60% of the portfolio revenue being okay. We see 15% were the revenue will continue, but orders are going to be very tough to come by, and we see 25% where revenue is going to be hard hit as you look at where it goes. It is a diversified business. That is kind of how we do our planning for next year.

And then on the cost side we've been aggressive on both direct and base costs in the business, so we are well-positioned for that. Really one of the things that doesn't get written about a lot is the fact that even if you go back to the summer or before, there had been a lot of project inflation.

A lot of our customers weren't that happy already with the projects and how they were being executed, so everybody in the industry was going through a cleanup process. And so we are already going through, even before Thanksgiving or OPEC or whatever you want to -- whatever you call this seminal day, we were already doing a ton of restructuring, getting our costs down.

Lorenzo already runs the business and I would say in a good way, as if oil prices were $60 or $70 a barrel. We look at projects -- when you talk to our customers, even before this, that's where they were so we just want to continue that. And then we are just ready for the industry.

In times like this you've got to worry about pricing pressure. You've got to worry about a lot of stuff. So we are not -- I think we've hedged this the right way. We have allowed room in the range in case things get worse, but we have been through these cycles before. SARS or power bubble or -- unfortunately I have been doing this long enough I could almost sing a song about all the crises I've seen.

So I just put them all in a -- I just think we are just ready for this. People ask me sometimes about I don't think this is the right time to do M&A. I like this space, guys. Let's be clear. I think over the long term I like this space just like I liked Aviation when it was tough, just like I liked all of our businesses, we like this space. We think this is a good GE business.

But you don't have to buy things now. Really I would say commercially, if you are in this kind of turbulence, GE looks really good on almost every project we would ever work on versus anybody else. And so we just are going to position ourselves. We're going to run the place good for investors, well for investors and we like how this whole thing -- we like this business.

We like it more at $120 a barrel, don't get me wrong, but we like this business over the long term.

Healthcare we are prepared for more sluggishness. Again, I would say Europe is still reasonably tough. The US is a little bit better than where we have been. Japan has been extremely tough this year.

Japan has been a very tough market in 2014. We still see good growth in life sciences, that is more driven by drug discovery. We have taken a ton of costs out of this place so we are well leveraged. Better products. What I talked about in the past, I think a better IT business.

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We basically missed the EMR wave in healthcare, but we are pretty well positioned for the next wave in healthcare in terms of applications that go with EMR, so we are pretty well positioned there. Still some uncertainty about what the Affordable Care Act is going to mean, but I would say we see people more willing to invest now than they were probably a year or two ago in terms of hospital CEOs. And so you are just going to have to be productive.

In healthcare we are counting on revenue growth, margin growth, and slight profit growth in 2015 and if markets get better, we will do better. I remind you in Transportation, as part of the Alstom deal, we are selling our signaling business to Alstom, so that part of the transaction. That's why you see two comments here.

This year a boomer in orders, but more sluggish on revenue and margins, mainly because of the wheels business to Komatsu into the mining space. So that has been a very tough year. We are not counting on the mining business getting any better. It has been a sluggish year and we are kind of counting on a flat year, but we've got an incredible backlog now of locomotives.

So this is going to have double-digit revenue growth, big backlog on orders. The signaling business is pretty profitable, so that has an impact on margin rate, but net-net we would have growing margins and growing revenue double digits. When you back out the signaling piece, you got operating profit growing positively at very strong backlog.

Again, very well positioned technically. We've got the only Tier 4 locomotive. Well-positioned strategically in terms of where we are around the world, a good service franchise, a growing service franchise. Mining I think we have in the run rate now; it has continued to be soft.

What I worry about at a time like this in a business like this is we have got to take a brand-new product. We've got to produce a bunch of them; we've got to take it down the learning curve. So this is not a market challenge, this is more of an execution challenge that I worry about in this business when I think about 2015.

Energy Management is really three businesses. We are going to get -- again, Alstom has a big participation here, so without business development you would have single-digit revenue growth and double-digit operating profit growth. With Alstom you're going to have strong revenue growth and strong op profit growth.

We've done a bunch of restructuring in this business and we should have a decent year in energy management. I would break it down into three pieces.

Power Conversion is an essential technology for the Company. Electrification is an essential technology, but we have had to put a ton of money into fixing this franchise. So we have really had to reinvest into this space, quite honestly more than we thought we were going to have to, but we are really well poised to see a couple good years of earnings growth in the Power Conversion business.

It reminds me a little bit of the wind business back a decade ago. The wind business, for the first couple years we owned it, we had to reinvest back in the product line. We had to clean up the installed base. It was terrible for probably three years and then it just has generated a boatload of cash since then. I look at Power Conversion kind of the same way.

Digital Energy is all about Alstom. Digital Energy is all about -- they are number three, we are number six. Together we are a stronger number three. You've got ABB and Siemens number one and number two. ABB in particular earns midteens margins. Together we are going to earn like 6%, maybe 6% margins. There is a huge amount of margin runway when you think about those businesses and where you can go.

Then in Industrial Solutions we have done a lot of restructuring. We're going to get good earnings growth. We will probably -- I'd say in a year or two we will be at or above 10% operating profit rate in the industrial systems business, and I think this is a business that's always got optionality.

It's a better fit with Alstom, but it's a business that we always think about from an investor-friendly standpoint in terms of where we go. Our job in the short term is to make it better, to make it much better.

Appliances goes, so really from a lighting standpoint it's just an LED story. We will cross $1 billion in LEDs. This is really more off an infrastructure service business, [today] it's a vastly different business. And then we've got to clean up -- one way, shape, or form we've just got to clean up the old installed base around lighting, but that's kind of where it is.

Appliances, I think we will get a gain that's let's say $0.07 -- $0.06, $0.07 a share of a gain that we are going to apply back to restructuring and other stuff around the Company. So that is really Appliances & Lighting.

Corporate, which has been kind of -- just a lot going on in corporate. I think it's just going to be easier and simpler to understand, so we're going to continue to take costs, just pure run rate costs out of corporate. We expect gains to offset restructuring, so this year we did just a $0.10-plus of naked restructuring, so that has been hurt to the Company. That just goes away, so gains are going to offset restructuring next year.

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Variability, based on when you do it. The places where we are reinvesting are going to be places like the software COE is going to be the biggest place that we reinvest in corporate, a ton going on in pension. We tried to spell it out for you here in terms of what happens, both in terms of interest rates and mortality tables and things like that. I would encourage you, if you are really curious about that stuff, to talk to Jeff during the cocktail hour. My PhD was in something than mortality tables, but --.

Then I think just simpler. I just think, as we've gone through the big restructuring program, this has been a hard thing to track through. I think next year we are really saying $2.3 billion to $2.5 billion, very transparent, part of the industrial EPS, and how we think about the Company going forward.

Capital allocation. Again, we talk about capital allocation in terms of 2015 and 2016. Again, given just the Synchrony dynamic, I think makes this a better way to look at it, so a real focus on free cash flow.

CFOA less P&E, driving good improvement inside the businesses in terms of where we go on CFOA. Synchrony is going to allow for a great tax capital efficient transaction for investors. Capital dividend, we are assuming that that continues.

And we are saying, in addition to the things that have already been announced, so like appliances and things like that, always around the edges there is at least let's say $2 billion of divestitures every year that we just view as just optionality, cleanup, things like that. And we would expect to have that in 2015 as well. Then from an allocation standpoint, $40 billion return to investors in terms of the Synchrony split and dividends.

Alstom is really the priority here, guys. I really -- this is our M&A plan, I would say, into 2015 and 2016 other than things that around the edges. We want to do a good job on Alstom. And then we still invest a lot organically in terms of the Company and the business and where it's going.

So that is the financial plan. We are saying $1.10 to $1.20 industrial EPS, that's up double digits versus this year. $0.60 on Capital, could be smaller if we get an opportunity to do so in an investor-friendly way. And then giving you a target for total cash generated $12 billion to $15 billion free cash flow and cash given back to investors of $10 billion to $30 billion, depending on Synchrony and where we go.

So again, just to recap on the Company, look, we have an awesome infrastructure company that is focused on returns. It is competitively well-positioned. It is going to be earning a substantial amount and increasing it over the years. And a GE Capital that is really based on returns and competitive advantage are going to dictate the size of GE Capital over time.

So very -- I think a very strong portfolio in the world we live in today. Then just continuing to improve what I would say the horizontal capability inside the Company, and that is product. Not just product innovation, but better manufacturing costs around the products.

It is a fantastic global and growth market footprint. It is this merger of physical and digital really owning the analytical space and doing a better job of taking costs out of our company. It is having a very strong service franchise, which we think in slow growth and volatile times is a good underpinning for the Company. And we've made great strides to make the service business even better.

Intense focus on gross margins and return on invested capital and momentum already in place to achieve that, and a focus on accountability and simplification. Then, not to go crazy on forward guidance really, but there's so much going on in the portfolio I just want to give you how I would think about the Company going forward into 2016.

You are going to lose the Synchrony earnings. Capital is going to be, let's say, $0.40 a share, plus or minus, right? That's where it's going to be. Then you take an Industrial business, you basically -- you've got restructuring equal gains, that adds.

You've got a buyback, that adds. You've got Alstom, that adds. And then you've got -- let's say you just target 5% plus organic growth, you've got industrial earnings that more than offset capital going down.

So we are growing EPS this year. We're going to grow EPS next year. We're going to grow EPS in 2016 and we are going to do it while massively changing the portfolio in the world where we see today and underwriting some negative risks. And that's how we think about the Company in 2015 and 2016 going forward.

Lastly, I would just say it is a different company. We got to run -- we got to think about it in a different context. I have got to think about it in a different context. I would say massively portfolio ins and outs, those days of big changes -- I'm not saying we won't ever change anything -- shift to getting the most out of the portfolio we have, improving returns.

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Improving returns industrially, we think we can get to 17%. And improving returns in GE Capital. We've got to get GE Capital above 10% and so this is a team that's going to get measured, managed, compensated based on generating good returns out of the portfolio we have. Point number one.

Point number two, if you look at the blend of talent at the top, there's nobody in headquarters that hasn't come recently from a business. We just basically have more intense operating focus at every point in the place, and I think that's a good thing.

I'm not sure I would ever again have people in the corporate top of the house that hadn't been in the business in a substantial way. I just think you get a different sensibility when you do that. And it is particularly important since I've been in the job for a while that you get new agitation that comes into that.

I would say point number three, I read all the notes you guys write about all of our competitors. I read almost every word. I don't read every word, but I read almost every word. Yes, Scott, especially with you. Any time you stop investing you die in this business, but I think we had the fault or I had the fault sometimes of investing in too many things.

I think what has to happen now is you have got to be investing more in -- if you launch a new product you got to get cost down. Analytics are going to improve the productivity and margins of all of our service portfolio.

Globally when we go to the country, go there not just to sell. We go there to drive productivity at the same time. So I really see a dramatic change in the way we invest about share and margins.

But any time you stop investing -- if you decide to sit out the next round of narrowbodies you lose for 30 years. If you decide to sit out the next round of large block gas turbines, you lose for 30 years. So investment is part of what we do in these companies, but the investment has to be narrower and deeper and I think that's important.

Modernizing the capability. You want us to be better at analytics and IT. You want us to be better at analytics and IT. I'm just telling you that flat out that's got to be a core competency in where we go.

And modernizing the culture, leaner, faster, risk-based, competitive; it's just a different place. It's a better place. It's a different place. It's important for us to be positioned where we need to get to in the future.

So with that let me stop there and take questions.

QUESTION AND ANSWER

Scott Davis *- Barclays Capital - Analyst*

Thanks, Jeff. There's a lot of skepticism around oil and gas. For one thing it's a bit of a falling knife still. We haven't hit a bottom yet, but what is the comfort level that you have that the backlog that you're talking about that you think is stable doesn't have to get repriced? Because there are some of your customers out there that have already come out publicly and said we want some pain share here and we may ask our suppliers to share some of the pain.

Jeff Immelt *- General Electric Company - Chairman and CEO*

Scott, in the stress -- in the base case you see today, some of that is already in it, so in other words we are not just taking a static backlog and rolling it through. We are assuming -- you saw on my chart room for price pressure, so we kind of thought somewhat about that. But I would say one of the mitigants to that is we were already working that way. These projects that had been going on were 50% to 100% inflation versus the way that they were priced before. So we were already working that way and I think in our base case we have mitigated -- we've kind of counted on some of that to take place.

Scott Davis *- Barclays Capital - Analyst*

Okay, and as a follow-up, the comment on Alstom margins, service margins being 10 points below yours, help us understand how easy it is to get those margins up and what happens to the overall enterprise? Does -- do your margins go up because of the scale, the increased scale the gets put through your service centers? Does the overall complex margins go up? Just help us understand the level of difficulty.

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Jeff Immelt *- General Electric Company - Chairman and CEO*

So what I would say, Scott, I would think about this in two stages. So I think in many ways whatever commercial agreements that they had will be honored out of the box but you basically have specific and direct overlap of capabilities. So when you look at SG&A, it's almost one for one overlap, so that is let's say the first traunch of margins.

The second traunch is there's just no analytics, remote monitoring, things like that that take place in a lot of the projects that they have. And then I would think about Steve's business in aggregate that the blended average initially the margin goes down because we're not going to be able to offset the entirety of that mix but over time we build back up so that the GE margins you see today over the next couple of years are going to be the blended margin. That is built into the return case that we see over time.

Steven Winoker *- Sanford C. Bernstein & Co. - Analyst*

Thanks, Jeff. One additional question around oil pricing is a lot of your gas turbine growth and Alstom's growth in recent years has come from oil-rich nations. What gives you the confidence that in bulk you are not going to face pressure on the gas turbine front as these nations find their own difficulty if these oil prices are sustained?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Steve, again we underwrite -- the case you have seen in the Power and Water segment is kind of flat market, so we are not really counting on much growth. A lot of the incremental backlog now is kind of US is kicking in more, Mexico kicking in more, China looks pretty good, things like that. And then you basically underwrite it country by country. So you underwrite it -- what do you think about Saudi? I still am pretty -- if Saudi needs electricity, they are going to buy electricity.

I would say when we first sat down to do the operating plan for 2015 in Power and Water, we had another big slug of turbines for Iraq. Those are gone so we basically go Nigeria, we are not counting on much from Nigeria. We are not counting on much from Iraq. We will complete the Algerian order. We still think countries like Saudi are going to be okay as you go through that.

You are going to see again between now and the end of the year, you are going to see big maybe one big order or maybe more that take place in regions like the ones you are worried about. So there's still a big hunt for emergency power and electricity. Look, electricity matters to these places. It's the last thing to be de-invested. So I would say what we have done is underwritten our case country by country. Some of the themes that we would've had six months ago are gone and some have stayed. Saudi had stayed.

Steven Winoker *- Sanford C. Bernstein & Co. - Analyst*

In terms of it holding margins in oil and gas and you talk about having gotten ahead of the cost reductions now, can you maybe give us a little more color for what you've actually been doing there that gives us -- should give us confidence that -- we're already in December. Has this already been a part of the restructuring that you have been doing? Where are you and how should we feel comfortable that you're going to be able to match that steep revenue decline?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Go back in time. So what was the thing most people would be talking about in the oil and gas industry let's say a year ago? It was oversold. We are sitting on six or nine months of late backlog. The supply chain if you compare the oil and gas, not just GE but the whole industry, if you compare the oil and gas supply chain to the aviation supply chain it's not even close. The reliability of the suppliers, the productivity of the suppliers, the reliability of the projects, the delivery of the projects, so I would say, Steve, we have been working like mad just to clean up our own factories, suppliers, getting things on time. So we've done more than $4 billion of restructuring over the last three or four years. Some of that has been in oil and gas and I would say we're going to have very aggressive base cost programs but we also have very aggressive variable cost programs that go along with that. So it's not just a base cost hit. This is a supply chain capability as well.

So I think that is the way I would think about it. This was not a superficial industry. There is a ton of room just to get the oil and gas business up to the standards of the rest of the GE internal GE family.

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With that, guys, I'm just going to reiterate, there's things we still don't know about oil and gas and we've tried to create a range that underwrites more things we don't know. We do the best we can from where we sit here today but we have tried to keep a big enough range that the downside can allow for oil and gas to get worse.

Stephen Tusa - ***JP Morgan - Analyst***

There's a lot of moving parts in Corporate with the gains in restructuring. Can you maybe just clarify is Alstom restructuring going to be taken in the second half of 2015? Just I guess the puts and takes around gains in restructuring in total.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I will do the best I can and then maybe you can hit Jeff. I would say the gains will be in excess of $1 billion. Then those will be eaten up somewhat by Alstom restructuring, things associated with that, and then just pure restructuring. So we will still do pure restructuring as part of that as well. But we view kind of the closing costs, the Alstom restructuring will be in Corporate.

Stephen Tusa - ***JP Morgan - Analyst***

Then I thought you said for the 2016 slide, you said something about organic growth of 5% to 10%. Was that revenue growth or was that profit? (multiple speakers)

Jeff Immelt - ***General Electric Company - Chairman and CEO***

We didn't give a guidance on 2016 revenue. Our long-term target is 5% but I'm just trying to get people to think through what just happens without really thinking -- restructuring gains, buy back, Alstom. Those three things are kind of -- we don't have to go out and do anything new. Those happen and then you are going to get organic growth that happens alongside that when you think about 2016. But it is too soon to (multiple speakers)

Stephen Tusa - ***JP Morgan - Analyst***

What is your oil price assumption for at least this year?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

We do $60 to $65. That's kind of where we are but again like I said, I don't think we know but that's how we did our plans in that range.

Stephen Tusa - ***JP Morgan - Analyst***

One just last one. Your free cash flow excluding dispositions is about I think $10 billion to $11.5 billion for next year.

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I think it was $14 billion to $16 billion less for $4 billion to $5 billion. So you're right I think.

Stephen Tusa - ***JP Morgan - Analyst***

So you are paying at a $9 billion dividend. I assume some of that cash is overseas. How are you managing this from a liquidity perspective? Are you bringing back cash and paying the tax in an efficient way or --?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

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You are going to get the chance to do Alstom out of foreign cash. We've got lots of optionality about how we think about it. We leave the year with $16 billion or more of cash so you've got a ton of optionality around cash right now. Really the big deal is Alstom for next year.

Deane Dray *- RBC Capital Markets - Analyst*

Thank you, Jeff. I would be interested in hearing some more thoughts on what you consider to be the optimal mix for GE, because we have heard a couple messages today, a big plus sign in front of that 75%, and lots of arrows down on making GE Capital smaller. Slide nine was pretty clear, you're going to seek every opportunity to make GE capital smaller.

So what are the -- if you get an investor friendly way but what are the parameters on the GE capital fit today? Is it risk? Is it cash flow opportunities? You managed the SIFI requirements well but still you want to get smaller, so where is the optimal mix and what are the parameters?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Again what I would say is the output on split is more the output than the input. So when I think about the strategy of the Company, it is investing really great businesses that leverage our core capability, improve the returns and things like that. Right? But when I look at GE Capital to me it's about competitive advantage and returns and which businesses do we have the most competitive advantage in and can we generate an attractive return for our investors given the requirements and getting the CCAR in 2017 and things like?

Then the third thing is I just -- we have to make it under our control. I think one of the good things we've done since the financial crisis is we've only talked about things that are in our own control, like doing to the Synchrony spin and things like that.

So I think when you factor in all those things, it's likely going to be small. We kind of say post-Synchrony it's going to be less than $300 billion and I think if you look at competitive advantage returns doing under our control is likely going to be smaller than that. We are on track to be part of the CCAR process in 2017. That's meaningful. That creates optionality in that time -- maybe more in that time period. So that's how I would think about it really. We're not in it just to be in it, we are in it to generate a good return.

Jeffrey Sprague *- Vertical Research Partners - Analyst*

Just pass this mic down one at a time. I was here first. Thank you for the question.

Part of the portfolio change in a sense of -- at least looks like it derisked the portfolio as capital gets smaller but I'm thinking kind of the flipside of that, you mentioned projects a couple times in oil and gas. Obviously with Alstom you are moving in the balance of plant and grid work and things that have kind of been the bane of the existence of some players over the years.

How do you actually manage through that? You are hiring people from Bechtel, so there's a little bit of acknowledgment that you do need some help there. And is it having any impact on your cash conversion? It looks like the cash conversion is under a little bit of pressure.

Jeff Immelt *- General Electric Company - Chairman and CEO*

What I would say, Jeff, is the project stuff isn't something we've actively sought to increase or decrease. With the acquisition of Alstom, we have it, so we are learning about it. We're going to kind of assess our ability to run it and run it well as time goes on. We're in the integration process so we will learn a lot about it but it's not -- it is neither a strategic imperative nor is it something we want to run away from, it just is a function of where we are and from a cash conversion standpoint, I think any time progress and things like that go up and down as orders go up and down. But our businesses like Power and Water, Aviation, these were all 20% plus return on capital businesses so they still are good cash-generating over the top businesses.

Jeffrey Sprague *- Vertical Research Partners - Analyst*

Just one other final thing. Just on Alstom, so will the restructuring actually be up in kind of the Corporate or segments? I would have thought a lot of that would've happened in purchase accounting and maybe (multiple speakers).

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Jeff Immelt *- General Electric Company - Chairman and CEO*

Yes. It's going to be there as well, so I think a lot of it is going to be purchase accounting but in terms of -- there's always some charges that go -- when we've done acquisitions in the past there's been charges that have gone to Corporate and that is where those will be.

The caveat -- the corollary of that says in Power and Water you're going to see the Power and Water segment is going to be several hundred million dollars greater of Alstom coming in in the second half, so that's where the upside is there.

Nigel Coe *- Morgan Stanley - Analyst*

Jeff, can you just maybe talk about how 4Q orders have tracked and I guess specifically have you seen any change in behavior from customers either the low oil price or strong dollar, any change in behavior at all?

Jeff Immelt *- General Electric Company - Chairman and CEO*

You know, Nigel, I would say -- again guys, I am giving you the best I see today, right? So I would say a slight positive orders V for the quarter would be my hunch based on where we are tracking here today. And I think other than Oil and Gas, Aviation, commercial spares, average daily order rate is the highest certainly since I have been CEO. We will take more look on load of orders in the second half of the year than any time really in our history.

So I don't see it yet but I am -- China will have positive orders in the quarter. So I think it is always good to take pause at a time like this and be thoughtful about what is happening and things like that. So I don't want to be Nostradamus or anything like that. I just am telling you kind of what we see and that is what we see. Clearly Oil and Gas customers are going to do a double clutch as they sit and go through what their -- some projects will go forward. Some projects won't, but on balance we are kind of counting for -- we track what they say about CapEx and then kind of plan for things to be at least that bad if not worse.

Nigel Coe *- Morgan Stanley - Analyst*

Secondly, your friends in Bavaria have seen a very different power market in 2015 than you do. Price down heavily, margins down heavily. Can you just provide some perspective on the power market generally in 2015, GE versus your competitors?

Jeff Immelt *- General Electric Company - Chairman and CEO*

I think the markets -- it is a competitive market and it is a flat market, so I think that is what most of the kind of industry analysts talk about. That is kind of how we plan it. There is going to be a ton of H activity. There is going to be a ton of large block activity and the it just depends on where -- a lot of the action is going to be in Japan next year so you're going to see Japan is going to be a super big market. The US is going to be a bigger market next year. So a lot of the pricing ends up being as much about the regional mix as it does about any given transaction I think terms of where we go. But we are certainly not counting on the market to be super hot.

Andrew Obin *- BofA Merrill Lynch - Analyst*

Just a broad question on oil. Is low oil good for GE or bad for GE?

Jeff Immelt *- General Electric Company - Chairman and CEO*

As you can imagine, we think a lot about that particularly in the last month or so. I would say on balance it's probably close to a wash. It's probably close to a wash to a slight negative. But it's not a big negative is the way I would think about it. I would say when our customers make more money, they spend more but it's going to have an impact on our Oil and Gas business.

Andrew Obin *- BofA Merrill Lynch - Analyst*

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Just following up on Keith's question about cash flow, if you look to what you are generating versus your spending on dividends and CapEx, there's sort of not much left to play with. So do we need to wait until CCAR to get more optionality? Can you actually -- are you in a position to actually use the industrial balance sheet beyond 2016 if needed or is that also part of the CCAR process?

Jeff Immelt *- General Electric Company - Chairman and CEO*

I still think we have debt capacity on the industrial balance sheet. We are not counting on it. And look, if you just look at our metrics, there's more cash in GE Capital than just pure income dividend, but we are part of a regulatory process and we are going to have to think about that.

But guys look, we've got a fantastic set of industrial businesses and we've got all the juice we need to continue to grow the industrial franchise. So I feel pretty good about where we are in total but there's not a day that I don't walk past Keith and say how about one for the Gipper, you know? And so it's just --.

Joseph Ritchie *- Goldman Sachs - Analyst*

Thanks, Jeff. So your industrial gross margins the last few years have been on a bit of the decline and some of that is due to we have had this massive equipment cycle. But look, you look at your service backlog is up strongly. Some of your simplification efforts are coming through. You are starting to incentivize gross margin expansion. At what point do you start to see gross margins turn up?

Jeff Immelt *- General Electric Company - Chairman and CEO*

I think we have already told you that we expect to see them up next year.

Joseph Ritchie *- Goldman Sachs - Analyst*

And is there a specific target then beyond next year?

Jeff Immelt *- General Electric Company - Chairman and CEO*

I think we have said 50 a year for the next couple of years. We have kind of targeted everything through 2016 so we are kind of saying 50 a year in 2015 and 2016. And so what we've done is we have underwritten that I think including as much mix as we can see. Mix has certainly hurt us but it's not a good excuse. I think we can do a better job on gross margins.

Joseph Ritchie *- Goldman Sachs - Analyst*

The follow-up is on the $135 billion in non-core assets that you are looking at potentially aggressively divesting. Can you talk a little bit about the timing, how you are thinking about potentially the use of those proceeds once you eventually divest of those assets?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Look, I think we've talked a little bit about Australia consumer. You've seen the announcements on the Hungarian bank. We're going to keep aggressively going after all the consumer red assets, make those smaller. As we shrink, there ought to be more cash optionality in GE Capital, so we would expect that to be reflected over time in terms of how we go and Synchrony should be a couple billion dollar gain. It depends on where the stock is and where it closes and when we do it and that will give us more optionality to continue to reduce red assets faster.

Julian Mitchell *- Credit Suisse - Analyst*

Thanks, just a question on healthcare because you could from the outside you could look at it and say all it is is sort of relentless cost-cutting and also you had that slide --

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Jeff Immelt - ***General Electric Company - Chairman and CEO***

Different from every other business.

Julian Mitchell - ***Credit Suisse - Analyst***

Well, you had that slide 7 on improving the portfolio. You had this sort of equal sign against healthcare. I wasn't really sure what that meant. You had a leadership change recently in the business so just (multiple speakers)

Jeff Immelt - ***General Electric Company - Chairman and CEO***

I think on the portfolio moves, look, my view is that Amersham is going to generate its cost of capital. I'm glad we did it. Healthcare IT, we acquired IDX. We should have been in better position for the EMR wave. That is a pivot we should have done a better job at. These businesses pivot. These businesses -- think about the power business, right?

We went through the gas turbine bubble but we have led in wind. We've led in distributed power. We've made every good pivot that the business has to make to be successful so as these businesses, as oil and gas goes through a cycle, as aviation goes through a cycle, as power and water has gone through maybe the biggest of all cycles, the team pivoted extremely well. And look, we were on the field with a pretty good franchise in healthcare IT and just didn't execute as well as -- and that was the wave of growth over the last five years. Now we're going to be able to catch the next wave but that is what you should expect us to do.

In terms of Healthcare, look, the market has been -- we have gone through a massive consolidation. Customers have kind of sat on their wallet for a couple of years. Procedures have started to grow again. If you go back over time, procedure growth has always been a precursor for new capital equipment growth. My expectation is that the US has a decent year. Europe is going to be very tough. China instead of growing double digits will probably grow high-single-digits in Healthcare. But I think all we are asking John to do is kind of low to mid-single-digit revenue growth, expand margins and be ready, be positioned.

Julian Mitchell - ***Credit Suisse - Analyst***

Thanks and just on the industrial overall, you used to give some color on the margin sort of puts and takes, value gaps, certification, R&D. How does that look for next year putting Alstom aside?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

So we've got another big year on -- we are expecting margin growth next year. So we expect to be 13% let's say more or less SG&A percentage of revenue next year. So we expect SG&A to continue to come down and we expect gross margins to be better and that SG&A will be a mixture of different stuff. But that's kind of the pathway we've showed you guys and we expect to be on that pathway.

John Inch - ***Deutsche Bank - Analyst***

Thanks, so the past few years have been characterized by industrial companies focusing their operations either through tax-free spins or whatnot. And one of the thematics of your pitch very much was big companies like GE have competitive advantages to play in these global arenas. None of us would've expected a deal the size of Alstom because you had been both on centric. I realize it came to you so how are you now just as a starting point thinking about big acquisitions both in that context and then being opportunistic, considering you've done the biggest deal ever?

Jeff Immelt - ***General Electric Company - Chairman and CEO***

Look, I just -- I like the way the Company looks right now. I think, John, we basically have exited businesses that didn't use the GE Store, appliances, we weren't in it to win. Didn't use our core capability. Every business we have (technical difficulty) I like the Company the way it looks today.

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The second thing I would say is Alstom has a tremendous value-creating potential for investors but it's going to take all of our hard work to do it. We have plenty on our plate for next year to execute on at Alstom and we're just not that interested in doing another -- given we like what we have and we've got good value-creating work on our plate right now, that's enough for right now.

John Inch *- Deutsche Bank - Analyst*

In fact I think you said that's M&A for 2015, 2016. So okay, here is sort of the corollary question. This whole supply-driven dynamic we are in with respect to oil, I guess a lot of us believe that this starts in 2015 but spills unless there is some sort of shift. This is going to spill into 2016. So you guys have made a big energy footprint commitment for presumably forever. Why not retain the flexibility if market conditions provide to go after and actually get much bigger in energy? In certain locations -- if markets (multiple speakers)?

Jeff Immelt *- General Electric Company - Chairman and CEO*

It is a great question but let me just tell you the way I think about it, which is I think in Oil and Gas, we like Oil and Gas. I will go back, we like oil and gas. We're diversified in oil and gas. We think this is a seminal business for the world and we want to be in it and we are in it. In this kind of volatility, GE is a very good person for any NOC or IOC to do business with, right? If you are an IOC and you want to test $65 a barrel on your new projects, you are going to come to GE to do that. So why would I pay anybody goodwill right now when basically our competitive position is better today relatively speaking that it was a month ago? I think that's the bottom line right now. There's just no reason to have to do that.

Our relative competitive position in the businesses we are in has gotten better. These are cycles we know, we have fundamental strength that other people don't have. Look, we can all arm wrestle over the value of a conglomerate, right? We can all arm wrestle that one. This is exactly the right time to want to be in a multi-business company, exactly the right time because our company is going to grow double-digit EPS next year even with a much worse oil case than the one we see today. Because Aviation is doing great and Transportation is doing great and we've got Alstom and we've got a bunch of other stuff underway. Those are things that FMC doesn't have. Those are things that Schlumberger doesn't have. Those are things that none of these guys have. I like us in that field right now.

Robert McCarthy *- Stifel Nicolaus - Analyst*

Thanks. Jeff, a lot of talk about gross margins today. I haven't really noticed it being part of your messaging in the past so much. So I'm just wondering what caused that to precipitate as such a big line today?

And just if you could comment on an observation that if you combine that with your SG&A targets, it would seem to put you through a 17% margin target.

Jeff Immelt *- General Electric Company - Chairman and CEO*

Look, I would say we have had a tremendous amount of mix headwind, Chris, and I think before we talk publicly to you guys about stuff, it's typically stuff we have been working on for a year or two so we've kind of been percolating I would say the programs around gross margins. And it's the way you get to 17%. You've got to have both things working and we've got to allow a little bit of room for mix. It's just -- I think that's probably something we can do a better job of.

So A, it's taking a while. We've got the programs in place. B, I always thought SG&A was a tremendous place to start just because the nature of the Company had changed so vastly. Just the global footprint of GE is so different today than it was when I became CEO. Our cost was in the wrong place. Our processes were in the wrong place. So the simplification around SG&A was the best place to focus and again, I think the combination of Dan and Jeff and Jamie and other people, we have got a good set of leaders to get it done.

Christopher Glynn *- Oppenheimer & Co. - Analyst*

So the 50 basis points would be independent of mix?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Yes, so in other words that includes mix, right. Yes. A couple more.

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Robert McCarthy *- Stifel Nicolaus - Analyst*

Just building on some of the previous questions, if we think about just your embedded assumptions for 2015 and 2016, either quantitative or qualitatively around price across the board?

Jeff Immelt *- General Electric Company - Chairman and CEO*

On pricing, like pure price?

Robert McCarthy *- Stifel Nicolaus - Analyst*

Yes. So I think you have 2% to 5% organic growth target for 2015 but obviously you've been talking about a lot of initiatives around gross margin and obviously you have a deflationary environment for oil, which will also (multiple speakers).

Jeff Immelt *- General Electric Company - Chairman and CEO*

Here's what I would say. I would say we had a positive value gap this year. Our expectation is that we have a positive value gap in 2015 and I just think it's too soon to forecast around 2016. So I think you've got a lot of positive momentum, a lot of things already in the backlog and there's just nothing inflationary in my world today fundamentally. So we are going to have pricing pressure in Oil and Gas. We are going to have pricing -- maybe gas turbines, pricing pressure, stuff like that. But there's nothing we really look at as incoming that is inflationary at all, so we would expect in fact to get incremental deflation with oil prices low.

Robert McCarthy *- Stifel Nicolaus - Analyst*

So negative prices in 2015?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Again, I think we look at a positive value gap, which would probably mean orders pricing will be flat to up slightly and we will get deflation, so you will have a positive value gap but how that plays out in 2016 is just too soon to think about it.

Robert McCarthy *- Stifel Nicolaus - Analyst*

Then just the last question is just around the change in some of the incentives both of the I guess segments and at the C-suite. Could you just comment what you think you've changed for the better or what do you try to do to try to modernize it?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Again I think we always as managers maximize -- always want to maximize judgment in terms of how you -- so we have always done goals and objectives for the Company. We flow those all the way down. They've always been numerically-based forever for 30 years I have been with GE.

I think the change we've made is just much more formulaic. Really it puts judgment aside and basically says what do you want to see as an investor? And now you have 5000 people that are going to get paid that way. So it's just complete pass-through from what you want in the Company to what an executive band plant manager in Aviation, how they see their incentive comp and it has always been directionally the same. Now it is linear and I think that is -- in an uncertain world, that's certain. That is for the better. We will do one more.

Unidentified Audience Member

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Just sort of two questions quickly. One is just going back to the lack of likelihood of doing M&A in the oil and gas space. Is part of that related to the obvious that Alstom costs you two to three times more than you had expected to spend on acquisitions a couple years ago? Is that part of it that you feel like you --?

Jeff Immelt *- General Electric Company - Chairman and CEO*

It is just -- I come back guys and say look, I don't think -- we've got every box covered that we want basically in the space. And fundamentally I think our competitive position is better today than it was six months ago. So organically we can generate a ton of value versus buying anything. So I never want to say never. I just don't view it as a strategic imperative for the Company.

Unidentified Audience Member

Just secondly, can you talk a little bit about how you are looking out over the next years, how you thinking about buyback versus dividend? I know you have joked around off-line of you won't retire until you get the dividend back up to the high water mark. Can you talk to us a little bit about that?

Jeff Immelt *- General Electric Company - Chairman and CEO*

Look, the buyback -- I think Synchrony was a tremendous way to and a capital-efficient way to buy back a ton of shares at the same time. And so look, we talked about that more than a year ago. It's now coming more into focus, so that is a very capital-efficient way to do it.

I think the Company is well-positioned organically. We still invest a lot in organic growth so we think that's important. And people like -- the vast majority of investors still like seeing the dividend grow in line with earnings. So I would say dividend in line with earnings. Let's do a great job of integration on Alstom and then see where we are in M&A. And let's do -- use incremental capital beyond that for buybacks. But Synchrony right now is the key driver for the buyback. And that is -- between dividend and buyback, $40 billion over two years is pretty good, pretty good.

So let me end there. The team, the team is all here. So cocktails, Lorenzo I'm sure will be a popular guy at cocktail, so I will let Lorenzo on his own and thanks and we will see you -- we will circulate. Great.

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